

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 EB-11 CIEP-02 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01

AGR-20 DRC-01 /182 W

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P R 210446Z APR 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC PRIORITY 5841

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L PHNOM PENH 5615

E.O.11652: GDS

TAGS: EAID EFIN

SUBJECT: PRICE STABLIZATION

REF: PHNOM PENH 5248

1. PURPOSE OF THIS MESSAGE IS TO REVIEW MEASURES UNDER CONSIDERATION BY GKR TO CONTROL CURRENT SURGE IN RETAIL PRICES OF ESSENTIAL COMMODITIES. LATTER IS MAINLY RESULT OF SERVER SUPPLY SHORTAGES. GKR IS CONSIDERING (A) LIMITING GOVERNMENT EXPENDITURES, (B) CURBING LUXURY IMPORTS, AND (C) AUGMENTING DOMESTIC CAPABILITY TO TRANSPORT KEY COMMODITIES FROM SURPLUS TO DEFICIT AREAS IN ORDER TO LIMIT DELETERIOUS EFFECT OF INFLATION.

2. ON BASIS OUR CONTACTS WITH GKR WORKING LEVEL, WE BELIEVE GOVERNMENT ABOUT READY TO TAKE ACTIONS IN FOLLOWING FIELDS: MODEST RIEL DEVALUATION , IMPOSITION OF NEGATIVE LIST FOR ESF, APPOINTMENT OF COORDINATOR FOR TONLE SAP - PHNOM PENH SUPPLY ROUTE WHOSE PRIMARY TASK WILL BE ASSURE AUGMENTED SUPPLY IN PHNOM PENH OF
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HOME GROWN FOODSTUFFS, TAX COLLECTION CHANGES AND

SYSTEMATIC BUDGET REVIEW. WE WILL PROVIDE DETAILS ON INDIVIDUAL MEASURES WHEN DECISION TO ACT IS FIRM; HOPEFULLY THIS WILL BE NEXT WEEK.

3. ESF NEGATIVE LIST: WE EXPECT THAT GKR WILL TRY TO LINK ITS ACQUIESCENCE TO IMPOSITION OF NEGATIVE LIST FOR ESF TO OUR AGREEMENT TO MATCH PLEDGES TO ESF RATHER THAN ACTUAL DEPOSITS. THIS WAS ALSO THE CASE LAST YEAR. WE ARE AGREEABLE BUT WILL, OF COURSE, INSIST ON MATCHING CONTRIBUTIONS DURING YEAR. ON BASIS OUR CONVERSATIONS WITH LOCAL JAPANESE EMBASSY, WE DO NOT ANTICIPATE IMPOSITION NEGATIVE LIST WILL DISSUADE JAPANESE FROM MAKING 1975 ESF CONTRIBUTION.

4. RIEL DEVALUATION: GKR OFFICIALS APPEAR CONVINCED OF NEED FOR DEVALUATION OF OFFICIAL EXCHANGE RATE BUT WISH TO RETAIN CIP DIFFERENTIAL AND INSTITUTION ESF PREFERENTIAL RATE FOR ESSENTIAL WORKING CLASS CONSUMABLES. THEY BELIEVE THESE EXCEPTIONS WILL HELP OFFSET LOCAL SUPPLY SHORTAGES AND KEEP PRICES FOR SUCH GOODS FROM BEING INCREASED AS CONSEQUENCE OF DEVALUATION. AS FOR PERCENTAGE OF DEVALUATION, WE EXPECT IT TO BE STEP TOWARD CLOSING GAP WITH FREE MARKET RATE, BUT DIFFERENCE BETWEEN THESE TWO RATES WILL REMAIN AT THIS TIME SUBSTANTIAL. HOWEVER, WE THINK GOVERNMENT AGREES THAT THIS DEVALTION WILL BE FIRST IN SERIES OF ADJUSTMENTS -- PERHAPS MONTHLY -- TO REDUCE TO MINIMUM CURRENT DISPARITY BETWEEN OFFICIAL AND FREE MARKET RATES. SUGGEST YOU ADVISE IMF OF EXPECTED ALTERATION IN EXCHANGE RATE STRUCTURE.

5. IF GKR DOES INDEED TAKE NECESSARY ACTION TO GET CONTROL OVER ACONOMY, WE WILL GIVE IT OUR FULLEST SUPPORT. NEXT SIX MONTHS WILL BE CRUCIAL IN THIS DOMAIN.
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